

# Stetson University, Inc.

Financial Report  
June 30, 2013

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## Independent Auditor's Report

To the Board of Trustees  
Stetson University, Inc.  
DeLand, Florida

### Report on the Financial Statements

We have audited the accompanying financial statements of Stetson University, Inc. (the "University"), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

The financial statements of the University, as of and for the year ended June 30, 2012, were audited by other auditors whose report dated September 28, 2012 expressed an unmodified opinion on those statements.

**Other Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the University's basic financial statements. The Supplementary Disaggregated Statement of Financial Position is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Supplementary Disaggregated Statement of Financial Position is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Disaggregated Statement of Financial Position is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we also issued our report dated September 30, 2013, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Orlando, Florida  
September 30, 2013

Stetson University, Inc.

**Statements of Financial Position**  
**June 30, 2013 and 2012**  
(In Thousands)

	2013	2012
<b>Assets</b>		
Cash and cash equivalents	\$ 16,284	\$ 25,449
Short-term investments	4,946	7,863
Notes and accounts receivable, net (Note 2)	9,505	11,049
Pledges receivable, net (Note 3)	20,954	8,456
Inventories	260	333
Investments (Notes 4 and 16)	167,279	136,613
Funds held in trust by others (Note 6)	9,306	8,892
Property, plant and equipment, net (Note 7)	136,488	133,874
Other assets	3,507	3,355
Investment in affiliated entity (Note 14)	3,470	3,176
<b>Total assets</b>	<b>\$ 371,999</b>	<b>\$ 339,060</b>
<b>Liabilities and net Assets</b>		
Liabilities:		
Accounts payable	\$ 4,902	\$ 4,460
Accrued liabilities	6,623	6,316
Student deposits and other current liabilities	3,779	3,221
Postretirement benefits (Note 11)	8,265	10,558
Refundable government loan funds	4,940	4,844
Annuities payable	2,722	3,248
Capital leases (Note 9)	144	274
Long-term debt (Note 8)	56,864	55,804
<b>Total liabilities</b>	<b>88,239</b>	<b>88,725</b>
Net Assets		
Unrestricted	128,950	118,775
Temporarily restricted (Note 15)	36,783	30,182
Permanently restricted (Note 15)	118,027	101,378
<b>Total net assets</b>	<b>283,760</b>	<b>250,335</b>
<b>Total liabilities and net assets</b>	<b>\$ 371,999</b>	<b>\$ 339,060</b>

See Notes to Financial Statements.

Stetson University, Inc.

**Statement of Activities**  
**Year Ended June 30, 2013**  
(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating revenues</b>				
Revenues, gains, and other support:				
Tuition and fees (net of scholarships and fellowships of \$55,589)	\$ 76,388	\$ -	\$ -	\$ 76,388
Contributions	477	2,338	-	2,815
Income and realized gains on investments – net of fees	314	-	-	314
Endowment income used in operations	1,962	3,763	-	5,725
Sales of educational services	3,442	-	-	3,442
Sales and services of auxiliary enterprises	17,563	-	-	17,563
Government grants	1,385	-	-	1,385
Other	2,021	-	-	2,021
Unrealized gain on investments	156	-	-	156
Net assets released from restrictions	18,287	(18,287)	-	-
<b>Total operating revenues, gains and other support</b>	<b>121,995</b>	<b>(12,186)</b>	<b>-</b>	<b>109,809</b>
<b>Operating expenses</b>				
Educational and general:				
Instruction	47,476	-	-	47,476
Research	618	-	-	618
Public service	636	-	-	636
Academic support	13,093	-	-	13,093
Student services	17,724	-	-	17,724
Institutional support	17,986	-	-	17,986
<b>Total education and general</b>	<b>97,533</b>	<b>-</b>	<b>-</b>	<b>97,533</b>
Auxiliary enterprises	17,695	-	-	17,695
<b>Total operating expenses</b>	<b>115,228</b>	<b>-</b>	<b>-</b>	<b>115,228</b>
<b>Change in net assets from operations</b>	<b>6,767</b>	<b>(12,186)</b>	<b>-</b>	<b>(5,419)</b>
<b>Nonoperating activities</b>				
Contributions for non-operating activities	123	6,427	15,896	22,446
Funds held in trust by others	29	266	322	617
Income and realized gains on investments – net of fees	3,283	6,923	-	10,206
Endowment income used in operations	(1,962)	(3,763)	-	(5,725)
Net unrealized gain from investments	3,121	5,961	-	9,082
Change in value of split interest agreements	-	97	275	372
Postretirement changes other than net periodic cost	2,293	-	-	2,293
Other	(1,001)	104	156	(741)
Net assets released from restrictions	1,736	(1,736)	-	-
Increase in investment in affiliated entity	-	294	-	294
<b>Change in net assets from non-operating activities</b>	<b>7,622</b>	<b>14,573</b>	<b>16,649</b>	<b>38,844</b>
<b>Change in net assets</b>	<b>14,389</b>	<b>2,387</b>	<b>16,649</b>	<b>33,425</b>
<b>Net assets</b>				
Beginning of period	118,775	30,182	101,378	250,335
Reclassification of net assets due to adoption of FL UPMIFA (Note 5)	(4,214)	4,214	-	-
End of period	<b>\$ 128,950</b>	<b>\$ 36,783</b>	<b>\$ 118,027</b>	<b>\$ 283,760</b>

See Notes to Financial Statements.

Stetson University, Inc.

**Statement of Activities**  
**Year Ended June 30, 2012**  
**(In Thousands)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating revenues</b>				
Revenues, gains, and other support:				
Tuition and fees (net of scholarships and fellowships of \$47,116)	\$ 77,465	\$ -	\$ -	\$ 77,465
Contributions	440	2,737	-	3,177
Income and realized gains on investments – net of fees	489	-	-	489
Endowment income used in operations	1,770	3,701	-	5,471
Sales of educational services	3,426	-	-	3,426
Sales and services of auxiliary enterprises	15,323	-	-	15,323
Government grants	2,908	-	-	2,908
Other	1,868	-	-	1,868
Unrealized loss on investments	(124)	-	-	(124)
Net assets released from restrictions	7,761	(7,761)	-	-
<b>Total operating revenues, gains and other support</b>	<b>111,326</b>	<b>(1,323)</b>	<b>-</b>	<b>110,003</b>
<b>Operating expenses</b>				
Educational and general:				
Instruction	46,011	-	-	46,011
Research	1,070	-	-	1,070
Public service	820	-	-	820
Academic support	12,615	-	-	12,615
Student services	14,789	-	-	14,789
Institutional support	17,518	-	-	17,518
<b>Total education and general</b>	<b>92,823</b>	<b>-</b>	<b>-</b>	<b>92,823</b>
Auxiliary enterprises	16,980	-	-	16,980
<b>Total operating expenses</b>	<b>109,803</b>	<b>-</b>	<b>-</b>	<b>109,803</b>
<b>Change in net assets from operations</b>	<b>1,523</b>	<b>(1,323)</b>	<b>-</b>	<b>200</b>
<b>Nonoperating activities</b>				
Contributions for non-operating activities	14	5,864	2,064	7,942
Funds held in trust by others	53	119	(166)	6
Income and realized gains on investments – net of fees	1,981	4,682	-	6,663
Endowment income used in operations	(1,770)	(3,701)	-	(5,471)
Net unrealized loss from investments	(1,650)	(2,767)	-	(4,417)
Change in value of split interest agreements	-	139	(412)	(273)
Postretirement changes other than net periodic cost	(662)	-	-	(662)
Other	(940)	1,820	(1,274)	(394)
Net assets released from restrictions	2,072	(2,072)	-	-
Decrease in investment in affiliated entity	-	(20)	-	(20)
<b>Change in net assets from non-operating activities</b>	<b>(902)</b>	<b>4,064</b>	<b>212</b>	<b>3,374</b>
<b>Change in net assets</b>	<b>621</b>	<b>2,741</b>	<b>212</b>	<b>3,574</b>
<b>Net assets</b>				
Beginning of period	118,154	27,441	101,166	246,761
End of period	<b>\$ 118,775</b>	<b>\$ 30,182</b>	<b>\$ 101,378</b>	<b>\$ 250,335</b>

See Notes to Financial Statements.

Stetson University, Inc.

**Statements of Cash Flows**  
**Years Ended June 30, 2013 and 2012**  
**(In Thousands)**

	2013	2012
Cash Flows From Operating Activities		
Change in net assets	\$ 33,425	\$ 3,574
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for long-term investment	(8,782)	(8,674)
Depreciation and amortization	8,299	8,141
Loss on disposal of property, plant and equipment	485	580
Income and net realized gains from long-term investments	(10,206)	(6,663)
Net unrealized (gains) losses from long-term investments	(9,082)	4,417
Amortization of bond discount and issuance costs	(1)	(2)
Change in value of split-interest agreements	12	150
Change in investment in affiliated entity	(294)	20
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Notes and accounts receivable	1,469	(883)
Pledges receivable	(12,498)	2,100
Inventories	73	59
Funds held in trust by others	(414)	556
Other assets	(174)	(1,674)
Increase (decrease) in liabilities:		
Accounts payable	442	1,369
Accrued liabilities	307	417
Student deposits and other current liabilities	558	(49)
Postretirement benefits	(2,293)	661
<b>Net cash provided by operating activities</b>	<b>1,326</b>	<b>4,099</b>
Cash Flows From Investing Activities		
Purchases of property, plant and equipment	(11,406)	(11,728)
Proceeds from sales of property, plant and equipment	8	8
Student loans issued	(705)	(717)
Proceeds from student loan collections	780	608
Purchases of investments	(96,079)	(67,818)
Proceeds from maturities and sales of investments	87,439	66,935
<b>Net cash used in investing activities</b>	<b>(19,963)</b>	<b>(12,712)</b>
Cash Flows From Financing Activities		
Proceeds from contributions received for:		
Investment in endowment	6,056	2,758
Investment in plant and other	2,726	5,865
Investment in annuity agreements	-	135
	<b>8,782</b>	<b>8,758</b>

(Continued)

Stetson University, Inc.

**Statements of Cash Flows**  
**Years Ended June 30, 2013 and 2012**  
**(In Thousands)**

	2013	2012
Other financing activities:		
Increase in federal student loan funds	96	100
Proceeds from long-term debt	3,448	6,976
Payments on capital leases	(130)	(340)
Payments on long-term debt	(2,365)	(2,052)
Payments on annuities payable	(359)	(385)
	<u>690</u>	<u>4,299</u>
<b>Net cash provided by financing activities</b>	<b>9,472</b>	<b>13,057</b>
<b>Net change in cash and cash equivalents</b>	<b>(9,165)</b>	<b>4,444</b>
Cash and cash equivalents:		
Beginning	25,449	21,005
Ending	<u>\$ 16,284</u>	<u>\$ 25,449</u>
Supplemental Disclosures of Cash Flow Information		
Interest paid	<u>\$ 2,172</u>	<u>\$ 2,177</u>
Equipment acquired under capital lease	<u>\$ -</u>	<u>\$ 214</u>

See Notes to Financial Statements.

## Stetson University, Inc.

### Notes to Financial Statements

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#### Note 1. Nature of Organization and Significant Accounting Policies

**Nature of organization:** Stetson University, Inc. (the University) is a nonprofit institution subject to the rules and regulations of IRS Section 501(c)(3). The University consists of four separate campuses at the following locations:

Stetson University (main campus)  
421 North Woodland Boulevard  
DeLand, FL 32723

Stetson University Center at Celebration  
800 Celebration Avenue, Suite 104  
Celebration, FL 34747

Stetson University College of Law  
1401 61st Street South  
Gulfport, FL 33707

Tampa Law Center and Campus  
1700 North Tampa Street  
Tampa, FL 33602

The accompanying financial statements were prepared on the accrual basis of accounting. Revenues and support are reported when earned or unconditionally received. Expenses are recorded when purchases of materials or services are made. Revenues earned and expenses incurred applicable to the current period are accrued while those applicable to future periods are deferred.

A summary of the University's significant accounting policies follows:

Resources are reported for accounting purposes into separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

**Permanently restricted:** Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related assets for general or specific purposes.

**Temporarily restricted:** Net assets that carry restrictions that expire upon the passage of a prescribed period of time or upon the occurrence of a stated event as specified by the donor. Included in this category are gifts held by the University pending their use in accordance with donor stipulations, unexpended gifts for capital projects, and pledges.

**Unrestricted:** Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Expenses are reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets as net assets released from restrictions in the accompanying statements of activities. Net assets released from restrictions in the year ended June 30, 2013, are comprised of approximately \$18.5 million due to satisfaction of program restrictions and scholarship awards, approximately \$1.5 million due to acquisition of capital assets.

**Notes to Financial Statements**

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**Note 1. Nature of Organization and Significant Accounting Policies (Continued)**

**Operating and nonoperating activities:** The statements of activities report the change in net assets from operating and nonoperating activities. Operating revenues consist of substantially all the activity of the University except for certain items specifically considered to be of a nonoperating nature. Contributions included in nonoperating activities consist of scholarship bequests and other restricted gifts not solicited as part of the annual fundraising campaigns, gifts restricted for the acquisition of capital assets, and gifts restricted to endowment funds. Nonoperating activities also include realized and unrealized gains/losses on endowment income not used in operations, change in net present value of split interest agreements, change in actuarial value of postretirement liability, and significant items of an unusual or nonrecurring nature.

**Classification of gifts:** The University reports gifts of cash and other assets as restricted contributions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

The University reports gifts of land, buildings, and equipment as unrestricted contributions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. Absent explicit donor stipulations about how those long-lived assets must be maintained, the University reports expirations of donor restrictions as unrestricted when the donated or acquired long-lived assets are placed in service.

In the event a donor makes changes to the nature of a restricted gift that affect its classification among the net asset categories, such amounts are reflected as reclassifications in the revenues section of the accompanying statements of activities.

**Cash and cash equivalents:** The University considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents, except for those short-term financial instruments included in the University's investment accounts.

The University maintains cash accounts with several large financial institutions. All accounts at each financial institution are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. The University has cash deposited that exceeds the federally insured deposit amount. Management does not anticipate nonperformance by the financial institutions. The University also places its cash equivalents and short-term investments with high-quality institutions.

Included in cash and equivalents at June 30, 2013 and 2012 are \$1,136,000 and \$3,318,000 of proceeds from the Volusia County Educational Facilities Authority Educational Facilities Revenue and Refunding Bonds of 2011. This balance is subject to restrictions imposed by the bond covenants and limited to use on authorized bond projects. The entire balance is invested in short-term commercial paper with the bond trustee and, as such, is not guaranteed by the FDIC. See Note 8 for further details concerning the Volusia County Educational Facilities Authority Educational Facilities Revenue Bonds of 2011.

**Short-term investments:** Short-term investments include assets invested in a managed fund that holds highly liquid fixed-income securities, short-term U.S. Treasury securities, and other short-term investments with varying maturities for an overall fund average of less than one year. All short-term investments are recorded at fair value.

**Stetson University, Inc.**

**Notes to Financial Statements**

**Note 1. Nature of Organization and Significant Accounting Policies (Continued)**

**Student accounts receivable:** Student accounts receivable are reported net of any anticipated losses due to uncollectible accounts and are included in notes and accounts receivable in the accompanying statements of financial position. The University considers an account to be past due when a student still has an account balance after the final payment due date of the semester. Past due accounts are subject to past due letter collection efforts. If an account balance still exists at the conclusion of the four- to six-month collection period, the account is written off and placed with a third-party collection agency. Historical write-off history as a percentage of outstanding receivable balances is used to help establish an appropriate allowance for uncollectible accounts. The University assesses a finance charge against past due student receivables that are deferred under a monthly payment plan.

**Student loans receivable:** The University makes uncollateralized loans to students based on financial need. Student loans are funded through the Federal Perkins loan program or institutional resources. At June 30, 2013 and 2012, student loans represented 1.2% and 1.4% of total assets, respectively.

At June 30, student loans consisted of the following:

	<b>2013</b>	<b>2012</b>
	(In Thousands)	
Federal Perkins loan program	<b>\$ 5,776</b>	\$ 5,796
Institutional programs	<b>670</b>	758
	<b>6,446</b>	6,554
Less allowance for doubtful accounts:		
Beginning of year	<b>(1,519)</b>	(1,415)
Adjustments	<b>(149)</b>	(108)
Write-offs	<b>33</b>	4
End of year	<b>(1,635)</b>	(1,519)
<b>Student loans receivable, net</b>	<b>\$ 4,811</b>	\$ 5,035

The University participates in the Perkins federal revolving loan program. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the federal government of \$4.9 million and \$4.8 million at June 30, 2013 and 2012, respectively, are ultimately refundable to the government and are classified as liabilities in the statement of financial position. Outstanding loans canceled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government.

At June 30, 2013 and 2012, the following amounts were past due under student loan programs:

	1-60 Days		60-90 Days		90+ Days		Total	
	Past Due		Past Due		Past Due		Past Due	
	(In Thousands)							
2013	\$	61	\$	29	\$	1,866	\$	1,956
2012	\$	8	\$	43	\$	1,749	\$	1,800

**Notes to Financial Statements**

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**Note 1. Nature of Organization and Significant Accounting Policies (Continued)**

Student loans receivable are reported net of any anticipated losses due to uncollectible loans and are included in notes and accounts receivable in the accompanying statements of financial position. The University considers a loan to be in default when it has been past due for a period of four months. Past due loans are subject to internal collection efforts for a period of six months and are subsequently placed with third-party collection agencies. The allowance for uncollectible loans is calculated using the unpaid balances of all defaulted loans and applying an allowance factor based on the length of time since the most recent payment. This calculation is performed for both the Federal Perkins and institutional loans. The Federal Perkins Loan program has provisions for deferment, forbearance, and cancellation of individual loans. The deferment and forbearance provisions of the Federal Perkins Loan program are generally applied to institutional loans as well. Interest continues to accrue while the loan is placed with a collection agency.

**Pledges receivable:** Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value, which approximates fair value at date of the pledges. Unconditional promises to give in future periods are initially recorded at estimated fair value (net of discount) and subsequently amortized over the expected payment period, net of an allowance for uncollectible pledges. The discount rates are determined at the time the unconditional promise to give is initially received, and are determined using a risk adjusted rate applied to most likely cash flows. Amortization of the discount is included in contribution revenue. The allowance for uncollectible pledges is based on pledge activity. Large pledges are reviewed on a case-by-case basis. The write-off history as a percentage of outstanding contributions receivables is considered in establishing an appropriate allowance.

**Inventories:** Inventories are stated at the lower of cost (first-in, first-out method) or market and consist primarily of print shop inventory and maintenance supplies.

**Investments:** Investments in marketable equity securities and debt securities, including mutual funds, are recorded at their estimated fair values, which are based on quoted market prices or recognized pricing services. Alternative investments (nontraditional, not readily-marketable assets) are stated at fair value as estimated in an unquoted market. Individual investment holdings within the alternative investments may, in turn, include investments in both nonmarketable and market-traded securities. Valuation of these investments may be determined by the investment manager. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Gifts of investments are recorded at their fair value (based upon quotations or appraisals) at date of gift. Purchases and sales of investments are recorded on the trade date. Except for investments that are not readily marketable or are held separately for specific reasons, investments are maintained in a pool. Gifts that are invested in the pool are assigned units of participation in the pool based upon their market value on the date of gift and the most recently determined unit market value for the existing units of participation. Subsequent allocations of annual income of the independent pool are based upon the number of units of participation. Withdrawals are based upon the spending policy approved by the Board of Trustees and follow the total return concept of utilizing both income and realized gain. The market value of the units of participation is calculated quarterly.

The University invests in a combination of investment securities, which are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect the University's investment balance reported in the statements of financial position.

**Notes to Financial Statements**

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**Note 1. Nature of Organization and Significant Accounting Policies (Continued)**

**Split-interest agreements:** The University's investments include deferred giving vehicles subject to split-interest agreements. Two different types of agreements are currently maintained: Charitable Gift Annuity and Charitable Remainder Unitrust.

Charitable Gift Annuities are irrevocable gifts under which the University agrees in turn to pay a life annuity to the donor or designated beneficiary. The contributed funds and the attendant liabilities immediately become part of the general assets and liabilities of the University, subject to the University's maintaining an actuarial reserve in accordance with Florida law. Charitable Remainder Unitrust gifts are time-restricted contributions not available to the University until after the death of the beneficiary, who, while living, receives an annual payout from the Trust based on a fixed percentage of the market value of the invested funds.

The University initially values deferred gifts of cash at face value and those of equities at market value then these values are actuarially discounted. Published IRS discount rates are employed to determine the net present value of both contributions and liabilities pertaining to these deferred giving arrangements.

Of the approximately \$167.3 million recorded as investments in the accompanying statement of financial position at June 30, 2013, \$3.1 million represents split-interest agreements, and the associated liabilities total \$2.7 million. Of the approximately \$136.6 million recorded as investments in the accompanying statement of financial position at June 30, 2012, \$3.2 million represents split-interest agreements, and the associated liabilities total \$3.2 million.

**Property, plant and equipment:** Property, plant, and equipment are stated at cost at the date of acquisition or at fair value at the date of donation in the case of gifts. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized, as are interest costs during the period of construction on amounts borrowed for such expenditures. Property, plant, and equipment are removed from the records and any gain or loss is recognized at the time of disposal.

The University collects works of art, historical treasures, and similar assets, which reflect the history of the institution and/or support its educational purpose. The collections are maintained for public exhibition, education, and research in furtherance of public service. Collections are protected, kept unencumbered, cared for, and preserved. The University capitalizes collections it receives as gifts. These collections are included in property, plant, and equipment and are not depreciated.

The University evaluates, on an on-going basis, the carrying value of property and equipment based on estimated future undiscounted cash flows. In the event such cash flows are not expected to be sufficient to recover the carrying value of the assets, the useful lives of the assets are revised or the assets are written down to their estimated fair values.

Depreciation is recorded on the straight-line basis. The estimated useful life of land improvements, buildings, and building improvements is five to 40 years. The estimated useful life of furniture and equipment and library books is three to ten years.

**Prepaid rents:** The University contributed to the construction of the Conrad Park baseball stadium in DeLand, Florida. In consideration for the \$1.3 million contribution, the University was given a lease to use the stadium for 20 years through 2019. The prepaid rents are amortized over the life of the lease and, as of June 30, 2013 and 2012, the University had \$358,000 and \$423,000, respectively, included in other assets in the statements of financial position pertaining to this lease.

**Student deposits:** Student deposits represent monies collected in advance for deposits and summer tuition.

**Notes to Financial Statements**

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**Note 1. Nature of Organization and Significant Accounting Policies (Continued)**

**Original issue discounts:** The original issue discounts on bonds are being amortized using the effective interest method over the life of the bonds.

**Deferred financing costs:** Deferred financing costs consist of bond issuance costs. These costs are being amortized using the effective interest method over the life of the related bonds and are included in other assets in the accompanying statements of financial position.

**Income taxes:** The University is exempt from federal income taxation as defined by Section 501(c)(3) of the Internal Revenue Code and is generally exempt from state income taxes under the provisions of the Florida Nonprofit Corporation Act. Therefore, no provision for income taxes has been reflected in the accompanying consolidated financial statements.

Management evaluated the University's tax positions and concluded that the College had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of the Income Taxes Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (FASB ASC). With few exceptions, the University is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years before 2010.

**Postretirement benefits:** The University accounts for its postretirement benefits on an accrual basis as discussed in Note 11.

**Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Tuition revenue and discounts:** Tuition is recognized when earned and is not refundable except as noted in the provisions of the University's catalog. The portion of tuition revenue for the summer term that is earned subsequent to the year ended June 30, 2013, is treated as deferred revenue and is included with student deposits and other current liabilities on the accompanying statements of financial position. The University presents amounts expended for scholarships and fellowships as a reduction of tuition and fees revenue on the accompanying statement of activities.

**Advertising costs:** The costs of advertising are charged to operations in the year incurred. Advertising costs amounted to approximately \$758,000 and \$723,000 for the years ended June 30, 2013 and 2012, respectively.

**Functional expenses:** Expenses are primarily reported in the statement of activities in categories recommended by the National Association of College and University Business Officers. The University's primary program service is instruction and research. Expenses reported as public service, academic support, student services, institutional support, and auxiliary enterprises are incurred in support of this primary program service. The University's fund-raising expenses were approximately \$2,494,000 and \$2,482,000 for the years ended June 30, 2013 and 2012, respectively, and are included in institutional support in the statements of activities.

**Reclassification:** Certain amounts have been reclassified from prior year financial statements to conform with current year presentation. Such reclassifications had no effect on net assets or change in net assets as previously reported.

**Stetson University, Inc.**

**Notes to Financial Statements**

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**Note 2. Notes and Accounts Receivable**

	<u>2013</u>	<u>2012</u>
	(In Thousands)	
Student accounts receivable (net of allowance of \$296 in 2013 and \$284 in 2012)	\$ 1,080	\$ 1,226
Student loans receivable (net of allowance of \$1,635 in 2013 and \$1,519 in 2012)	4,811	5,035
Grants receivable	1,724	2,565
Accrued interest receivable	723	559
Other receivables	1,167	1,664
	<u>\$ 9,505</u>	<u>\$ 11,049</u>

**Note 3. Pledges Receivable**

Unconditional promises are expected to be realized in the following periods:

	<u>2013</u>	<u>2012</u>
	(In Thousands)	
One year or less	\$ 6,777	\$ 4,414
Between one year and five years	13,750	3,288
More than five years	1,699	1,777
	<u>22,226</u>	<u>9,479</u>
Less, discount of \$827 in 2013 and \$833 in 2012 and allowance of \$455 in 2013 and \$190 in 2012	<u>(1,272)</u>	<u>(1,023)</u>
	<u>\$ 20,954</u>	<u>\$ 8,456</u>

Pledges receivable are classified as follows:

	<u>2013</u>	<u>2012</u>
	(In Thousands)	
Permanently restricted	\$ 12,558	\$ 2,719
Temporarily restricted	8,396	5,737
	<u>\$ 20,954</u>	<u>\$ 8,456</u>

Approximately 70% of the University's pledges receivable at June 30, 2013 and 2012, were provided by three and seven contributors, respectively. Included in net pledges receivable as of June 30, 2013 and 2012, are approximately \$15.7 million and \$3.8 million, respectively, in written promises to give from members of the Board of Trustees and Officers of the University.

**Stetson University, Inc.**

**Notes to Financial Statements**

**Note 4. Investments**

A summary of investments by type is as follows:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
	(In Thousands)			
Money market	\$ 1,014	\$ 1,014	\$ 1,192	\$ 1,192
Equity securities	33,309	43,888	30,530	36,314
Equity mutual funds	36,312	48,759	31,943	39,592
Fixed income securities	1,587	1,499	1,024	960
Fixed income mutual funds	52,593	53,146	45,546	47,460
Alternative investments	17,137	18,417	10,208	10,553
Other investments	1,197	556	1,199	542
	<b>\$ 143,149</b>	<b>\$ 167,279</b>	<b>\$ 121,642</b>	<b>\$ 136,613</b>

Income and net realized gains on investments for the year ended June 30, 2013, are as follows:

	Temporarily		
	Unrestricted	Restricted	Total
	(In Thousands)		
Income on endowment funds	\$ 1,381	\$ 3,151	\$ 4,532
Other investment income	287	-	287
Net realized gains on endowment funds	1,929	3,772	5,701
	<b>\$ 3,597</b>	<b>\$ 6,923</b>	<b>\$ 10,520</b>
Income and realized gains on investments – net from operating activity	\$ 314	\$ -	\$ 314
Income and realized gains on investments – net from non-operating activities	3,283	6,923	10,206
	<b>\$ 3,597</b>	<b>\$ 6,923</b>	<b>\$ 10,520</b>

**Stetson University, Inc.**

**Notes to Financial Statements**

**Note 4. Investments (Continued)**

Income and net realized gains on investments for the year ended June 30, 2012, are as follows:

	Unrestricted	Temporarily Restricted	Total
	(In Thousands)		
Income on endowment funds	\$ 890	\$ 2,578	\$ 3,468
Other investment income	489	-	489
Net realized gains on endowment funds	1,091	2,104	3,195
	<u>\$ 2,470</u>	<u>\$ 4,682</u>	<u>\$ 7,152</u>
Income and realized gains on investments – net from operating activity	\$ 489	\$ -	\$ 489
Income and realized gains on investments – net from non-operating activities	1,981	4,682	6,663
	<u>\$ 2,470</u>	<u>\$ 4,682</u>	<u>\$ 7,152</u>

Investment income is net of management fees and expenses of approximately \$823,000 and \$509,000 for the years ended June 30, 2013 and 2012, respectively.

The following schedule summarizes changes in relationships between market value and cost of the University's pooled investments (in thousands, except for market value per share):

	Year Ended June 30, 2013			
	Cost	Market Value	Net Gain	Market Value Per Share
	(In Thousands)			
End of period	\$ 135,910	\$ 159,831	\$ 23,921	\$ 12.30
Beginning of period	114,978	129,896	<u>14,918</u>	10.72
Net change in unrealized appreciation for the period			9,003	
Net realized gain for the period			<u>5,633</u>	
Net gain			<u>\$ 14,636</u>	
	Year Ended June 30, 2012			
	Cost	Market Value	Net Gain	Market Value Per Share
	(In Thousands)			
End of period	\$ 114,978	\$ 129,896	\$ 14,918	\$ 10.72
Beginning of period	105,281	123,772	<u>18,491</u>	10.90
Net change in unrealized appreciation for the period			(3,573)	
Net realized gain for the period			<u>3,129</u>	
Net loss			<u>\$ (444)</u>	

## Notes to Financial Statements

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### Note 4. Investments (Continued)

Earnings on the Fund include dividends and interest income. For the years ended June 30, 2013 and 2012, the earnings were \$4.6 million and \$3.8 million, respectively, or \$0.36 per share, as computed on ending shares.

### Note 5. Endowment and Change In Accounting Policy

The University's endowment consists of approximately 500 individual funds established for a variety of purposes. These resources are recorded as permanently restricted, temporarily restricted, and unrestricted net assets, as described below.

#### Interpretation of Relevant Law

On June 17, 2011, the State of Florida passed a version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The effective date of the enacted version of UPMIFA in Florida (FL UPMIFA) is July 1, 2012. Accordingly, the University was required to adopt the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205-50 (formerly FASB Staff Position 117-1, *Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*) on July 1, 2012. This standard provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of UPMIFA. As a result of the adoption of FL UPMIFA, the University has reclassified \$4,214,000 of donor-restricted earnings, which had not been appropriated, from unrestricted to temporarily restricted net assets.

The Board of Trustees has interpreted the Florida Uniform Prudent Management of Institutional Funds Act (FL UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by FL UPMIFA. In accordance with FL UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund.
- The purposes of the University and the donor-restricted endowment fund.
- General economic conditions.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of the University.
- The investment policies of the University.

Funds functioning as endowments are University resources designated as endowment by the Board of Trustees and are invested in the endowment for long-term appreciation and current income. However, these assets remain available and may be spent at the Board's discretion unless donor-imposed restrictions exist on their use. Certain contributions with donor-imposed restrictions have been designated as endowment by the Board of Trustees and are included in temporarily restricted net assets.

**Stetson University, Inc.**

**Notes to Financial Statements**

**Note 5. Endowment and Change in Accounting Policy (Continued)**

Endowment net assets were composed of the following as of June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
True endowment funds				
Accumulated earnings and original contribution	\$ -	\$ 15,478	\$ 113,783	\$ 129,261
Unspent endowment distributions	-	2,343	-	2,343
Unrestricted support of underwater endowments	(3,243)	-	-	(3,243)
Board-designated funds				
Accumulated earnings and original contribution	55,894	919	-	56,813
Unspent endowment distributions	953	-	-	953
	<b>\$ 53,604</b>	<b>\$ 18,740</b>	<b>\$ 113,783</b>	<b>\$ 186,127</b>

Endowment net assets were composed of the following as of June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
True endowment funds				
Accumulated earnings and original contribution	\$ -	\$ 5,373	\$ 97,442	\$ 102,815
Unspent endowment distributions	4,214	1,498	-	5,712
Unrestricted support of underwater endowments	(5,699)	-	-	(5,699)
Board-designated funds				
Accumulated earnings and original contribution	37,294	9,447	-	46,741
Unspent endowment distributions	1,188	-	-	1,188
	<b>\$ 36,997</b>	<b>\$ 16,318</b>	<b>\$ 97,442</b>	<b>\$ 150,757</b>

**Stetson University, Inc.**

**Notes to Financial Statements**

**Note 5. Endowment and Change in Accounting Policy (Continued)**

Changes to endowment net assets for the fiscal year ended June 30, 2013, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
Endowment net assets, at beginning of year	\$ 36,997	\$ 16,318	\$ 97,442	\$ 150,757
Net asset reclassification due to adoption of FL UPMIFA	(4,214)	4,214	-	-
Endowment net assets, after reclassification	<u>32,783</u>	<u>20,532</u>	<u>97,442</u>	<u>150,757</u>
Investment return:				
Investment income	1,580	3,240	-	4,820
Realized gain	1,929	3,772	-	5,701
Unrealized gain	3,120	5,960	323	9,403
<b>Total investment return</b>	<u>6,629</u>	<u>12,972</u>	<u>323</u>	<u>19,924</u>
Contributions	-	45	15,896	15,941
Expenditures	(5,867)	-	-	(5,867)
Other changes:				
Transfers to create board-designated funds	5,130	129	-	5,259
Recovery of underwater funds	2,436	(2,436)	-	-
Net assets released from restrictions	12,464	(12,464)	-	-
Other endowment activity	29	(38)	122	113
Endowment net assets, at end of year	<u>\$ 53,604</u>	<u>\$ 18,740</u>	<u>\$ 113,783</u>	<u>\$ 186,127</u>

**Stetson University, Inc.****Notes to Financial Statements****Note 5. Endowment and Change in Accounting Policy (Continued)**

Changes to endowment net assets for the fiscal year ended June 30, 2012, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
Endowment net assets, at beginning of year	\$ 38,296	\$ 13,284	\$ 96,155	\$ 147,735
Investment return:				
Investment income	1,347	2,648	-	3,995
Realized gain	1,099	2,104	-	3,203
Unrealized loss	(1,649)	(2,767)	(166)	(4,582)
<b>Total investment return</b>	<b>797</b>	<b>1,985</b>	<b>(166)</b>	<b>2,616</b>
Contributions	-	-	2,025	2,025
Expenditures	(5,398)	-	-	(5,398)
Other changes:				
Transfers to create board-designated funds	-	4,321	-	4,321
Net assets released from restrictions	3,272	(3,272)	-	-
Other endowment activity	30	-	(572)	(542)
Endowment net assets, at end of year	<b>\$ 36,997</b>	<b>\$ 16,318</b>	<b>\$ 97,442</b>	<b>\$ 150,757</b>

**Funds with Deficiencies:** From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or FL UPMIFA requires the University to retain as a fund of perpetual duration. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. As of June 30, 2013 and 2012, the amount of these deficiencies totaled approximately \$3.2 million and \$5.7 million, respectively.

**Return Objectives and Risk Parameters:** The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 and other benchmark indices while assuming a moderate level of investment risk.

## Stetson University, Inc.

### Notes to Financial Statements

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#### Note 5. Endowment and Change in Accounting Policy (Continued)

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The purpose of establishing a target spending rate for the University's endowment assets is to achieve the spending stability necessary for the planning and budgeting activities funded from the University's earnings. In 2006, the Board resolved to maintain the endowment payout rate in a range of 3% to 6% of the University's 12-quarter moving average market value. In 2008, a target rate of 4.5% was identified.

#### Note 6. Funds Held in Trust by Others

Funds held in trust by others represent resources neither in the possession nor under the control of the institution, but held and administered by outside trustees, with the University deriving income from such funds. The fair value of the University's share of the assets is reflected in the statements of financial position and the income (including changes in the fair value of the assets) is recorded on the accrual basis. Funds held in trust by others are recognized at the estimated fair value of the assets or the present value of the future cash flows when the irrevocable trust is established or the University is notified of its existence. The funds held in trust by others at June 30, 2013 and 2012, amounted to approximately \$9.3 million and \$8.9 million, respectively. Included in these balances are various Charitable Remainder Unitrusts and Annuity Trusts that amount to approximately \$2.3 million.

#### Note 7. Property, Plant and Equipment

Property, plant, and equipment are summarized as follows:

	<b>2013</b>	<b>2012</b>
	(In Thousands)	
Land	\$ 8,104	\$ 6,554
Land improvements, building and facilities	176,355	166,112
Furniture and equipment	21,784	22,349
Library books and collections	29,995	29,964
Construction-in-progress	2,401	6,378
Equipment under capital lease	2,062	2,184
	<b>240,701</b>	233,541
Less accumulated depreciation and amortization	<b>(104,213)</b>	(99,667)
	<b>\$ 136,488</b>	\$ 133,874

Amortization expense relating to the capitalized leases was approximately \$137,000 and \$320,000 for the years ended June 30, 2013 and 2012, respectively. Depreciation expense relating to constructed and purchased property and equipment was approximately \$8.2 million and \$7.8 million for the years ended June 30, 2013 and 2012, respectively.

## Stetson University, Inc.

### Notes to Financial Statements

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#### Note 7. Property, Plant and Equipment (Continued)

Interest capitalized during the years ended June 30, 2013 and 2012, was approximately \$37,000 and \$75,000, respectively.

Construction-in-progress at June 30, 2013, relates primarily to the renovations of existing facilities and residence halls. Estimated costs to complete these projects amount to approximately \$1.6 million. Construction-in-progress at June 30, 2012, relates primarily to the construction of the Athletic Fieldhouse and to renovations of existing facilities and residence halls. Estimated costs to complete these projects were approximately \$4.4 million.

The University recognized approximately \$825,000 and \$967,000 for rental income on various facilities during the years ended June 30, 2013 and 2012, respectively.

#### Note 8. Long-Term Debt

Long-term debt consists of the following:

	<u>2013</u>	<u>2012</u>
	(In Thousands)	
<b>Bonds payable</b>		
Stetson University Volusia County Educational Facilities Authority Educational Facilities Revenue and Refunding Bonds of 2005 – payable in annual installments of \$910,000 to \$1,615,000 through 2026, plus semiannual interest payments at rates from 4.0% to 5.0%, collateralized by the University's tuition revenues.	\$ 15,965	\$ 16,840
Stetson University Volusia County Educational Facilities Authority Educational Facilities Revenue and Refunding Bonds of 2010 – payable in annual installments of \$995,000 to \$3,660,000 through 2030, plus semiannual interest payments at a fixed rate of 3.57%, collateralized by the University's tuition revenues.	27,380	28,340
Stetson University Volusia County Educational Facilities Authority Educational Facilities Revenue and Refunding Bonds of 2011 – payable in monthly installments of \$32,000 to \$56,000 through 2031, plus monthly interest payments at a fixed rate of 3.11%, collateralized by the University's tuition revenues.	9,429	9,803
	<u>52,774</u>	<u>54,983</u>
Other notes payable	3,624	280
	<u>56,398</u>	<u>55,263</u>
Unamortized premium on bonds payable	466	541
	<u>\$ 56,864</u>	<u>\$ 55,804</u>

The University has a line of credit that provides up to \$1 million for the operations and maintenance of the University. Borrowings under this line of credit bear interest at the London Interbank Offer Rate plus 1.75%, which automatically renews annually unless the University is otherwise notified by the bank. The University had no outstanding balance on this line of credit at June 30, 2013 and 2012. There are no commitment fees on the unused line of credit. The line is collateralized by a portion of the University's cash reserves.

**Stetson University, Inc.****Notes to Financial Statements****Note 8. Long-Term Debt (Continued)**

Required reductions of long-term debt for the fiscal years following 2013 are as follows:

Year Ending June 30,	Principal			Interest	Total Debt Service
	Bonds	Other	Total		
	(In Thousands)				
2014	\$ 2,289	\$ 186	\$ 2,475	\$ 2,118	\$ 4,593
2015	2,372	50	2,422	2,032	4,454
2016	2,474	1,052	3,526	1,930	5,456
2017	2,567	1,249	3,816	1,808	5,624
Thereafter	43,072	1,087	44,159	11,813	55,972
	<u>\$ 52,774</u>	<u>\$ 3,624</u>	<u>\$ 56,398</u>	<u>\$ 19,701</u>	<u>\$ 76,099</u>

During fiscal year 2013, the University entered into a bank loan for \$3,000,000 to fund the acquisition and renovation of the University Inn property for use as student housing. Interest only payments at 1.75% over LIBOR are due monthly through August, 2015. Beginning in September 2015 and continuing through February 2018, monthly payments will include principal of \$100,000 plus interest. It is the intention of the University to repay this loan with the next bond issue.

During fiscal year 2012, the University issued \$10 million of Series 2011 VCEFA Educational Facilities Revenue and Refunding Bonds. The net proceeds from the sale of the Bonds were used to pay the costs associated with the issuance of the Bonds and were used to refund all remaining maturities of notes payable issued in June 2008, and July 2011. \$3.3 million of the proceeds were used to refund the notes payable. The remaining \$6.7 million of the proceeds were used to pay for bond issuance costs of \$114,000 and for the acquisition and renovation of the Stetson Cove Apartments, a portion of the Athletic Fieldhouse construction, and various improvements and renovations to existing academic buildings and residence halls.

The bonds contain various restrictions and other covenants typical of such agreements, with which the University is required to comply.

**Note 9. Capital Leases**

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2013:

Year Ending June 30,	(In Thousands)
2014	\$ 85
2015	66
Total minimum lease payments	151
Less amount representing interest	(7)
Present value of net minimum lease payments	<u>\$ 144</u>

## Stetson University, Inc.

### Notes to Financial Statements

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#### Note 10. Operating Leases

The University has entered into various leases for automobiles and office equipment. The leases are noncancelable operating leases which expire at various dates through 2018. Following is a schedule of minimum future rental payments under noncancelable operating leases:

Year Ending		(In Thousands)
June 30,		
2014	\$	245
2015		172
2016		75
2017		40
2018		3
Minimum future rental payments	\$	<u>535</u>

Rent expense incurred under operating leases amounted to approximately \$1,180,000 and \$988,000 for the years ended June 30, 2013 and 2012, respectively.

#### Note 11. Retirement and Postretirement Benefits

Retirement benefits are provided through defined contribution plans with the Teachers Insurance and Annuity Association – College Retirement Equities Fund, a national organization used to fund pension benefits for educational institutions. All full-time employees with two years of service are eligible under the plan. The University's cost is calculated at 10% of qualifying participants' compensation. The pension expense for the years ended June 30, 2013 and 2012, amounted to approximately \$4.5 million and \$4.3 million, respectively.

In addition, the University sponsors a defined benefit postretirement plan that provides medical and term-life insurance benefits to eligible retirees. During its May 2007 meeting, the Board of Trustees approved a resolution to reduce and eventually eliminate the postretirement defined benefit plan over a four-year period. Employees retiring through June 30, 2008, who elected to receive postretirement health care benefits, are responsible to pay 40% of the premium. Employees who retired between July 1, 2008 and June 30, 2011, who elected to receive postretirement health care benefits, are responsible to pay 50% of the premium. Employees retiring after June 30, 2011, who elect to receive postretirement health care benefits, are responsible to pay 100% of the premium. The effect of the amendment was a \$12.3 million reduction in prior year service costs, which will be amortized over the average service to full eligibility as of the date of the plan amendment.

**Stetson University, Inc.**

**Notes to Financial Statements**

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**Note 11. Retirement and Postretirement Benefits (Continued)**

ASC 958-715, Not-for-Profit Entities: Compensation-Retirement Benefits, requires recognition of the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in the accompanying statement of financial position and to recognize changes in that funded status in the year in which the changes occur in unrestricted net assets. It also requires measurement of the funded status of a plan as of the date of the year-end statement of financial position. The funded status of a defined benefit plan is measured as the difference between plan assets at fair value and the benefit obligation.

	<u>2013</u>	<u>2012</u>
	(In Thousands)	
Change in accumulated postretirement benefit obligation:		
Benefit obligation at beginning of year	\$ 10,558	\$ 9,897
Service cost	121	109
Interest cost	378	507
Plan participants' contributions	457	467
Amendments	-	-
Actuarial (gain) loss	(2,230)	603
Benefit payments	(1,026)	(1,071)
Medicare subsidy	7	46
Benefit obligation at end of year	<u>\$ 8,265</u>	<u>\$ 10,558</u>
Change in Plan assets:		
Fair value of Plan assets at beginning of year	\$ -	\$ -
University contributions	562	558
Plan participants' contributions	457	467
Benefits paid	(1,026)	(1,071)
Medicare subsidy received	7	46
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>

**Stetson University, Inc.**

**Notes to Financial Statements**

**Note 11. Retirement and Postretirement Benefits (Continued)**

	<u>2013</u>	<u>2012</u>
	(In Thousands)	
Funded status of the Plan:		
Funded status at end of year	\$ (8,265)	\$ (10,558)
Unrecognized actuarial loss	-	-
Unrecognized prior service cost	-	-
Net accrued benefit liability	<u>\$ (8,265)</u>	<u>\$ (10,558)</u>
Amounts recognized in the statement of financial position:		
Postretirement benefit liability	<u>\$ 8,265</u>	<u>\$ 10,558</u>
Net amount recognized	<u>\$ 8,265</u>	<u>\$ 10,558</u>
Amounts recognized in the statement of activities:		
Net loss	\$ 5,881	\$ 8,736
Prior service credit	(428)	(823)
	<u>\$ 5,453</u>	<u>\$ 7,913</u>
Assumptions as of the end of the year:		
Discount rate	4.26%	3.65%
Expected return on assets	N/A	N/A
Rate of compensation increases	N/A	N/A
Accumulated Postretirement Benefit Obligation (APBO):		
Active employees	\$ 1,199	\$ 1,536
Retirees	7,066	9,022
Total APBO	8,265	10,558
Unrecognized gain (loss)	-	-
Accrued postretirement benefit liability	<u>\$ 8,265</u>	<u>\$ 10,558</u>
	<u>2013</u>	<u>2012</u>
	(In Thousands)	
Net periodic postretirement benefit cost:		
Service costs (benefits earned during the period)	\$ 121	\$ 109
Interest cost (on accumulated postretirement benefit obligation)	378	507
Amortization of net actuarial loss	625	621
Amortization of prior service credit	(396)	(1,620)
Net periodic postretirement benefit costs	<u>\$ 728</u>	<u>\$ (383)</u>

**Stetson University, Inc.**

**Notes to Financial Statements**

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**Note 11. Retirement and Postretirement Benefits (Continued)**

For measurement purposes, a 9.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for the year ended June 30, 2013. The rate was assumed to decrease to 7.5% in the second year and by 0.25% per year until 2024 and remain at 5.0% thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects as of and for the year ended June 30, 2013:

	One Percentage Point Increase	One Percentage Point Decrease
	(In Thousands)	
Effect on total service and interest cost	\$ 77	\$ (65)
Effect on end of year postretirement benefit obligation	827	(704)

The University's postretirement benefits are unfunded; therefore, cash contributions for postretirement benefits are equal to the benefit payments.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year Ending June 30,	(In Thousands)
2014	\$ 573
2015	569
2016	561
2017	562
2018	539
2019-2023	2,735

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act), which introduces a Medicare prescription drug benefit, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare benefit, was enacted. On May 19, 2004, the FASB issued FSP No. 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*, to discuss certain accounting and disclosure issues raised by the Act. FSP 106-2 addresses accounting for the federal subsidy for the sponsors of single employer defined benefit postretirement health care plans.

The University has concluded that the prescription drug benefits provided under the postretirement plan are actuarially equivalent to the Medicare benefit as necessary to qualify for the subsidy. The reported net periodic benefit costs of the postretirement plan in the accompanying statement of activities reflect the effects of the Act.

**Notes to Financial Statements**

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**Note 12. Collegiate Housing Foundation – DeLand, LLC**

The University has entered into an arrangement with Collegiate Housing Foundation – DeLand, LLC (CHF-DeLand), a wholly-owned subsidiary of Collegiate Housing Foundation, in which students of the University utilize a 338-bed housing facility. The University collects payments from students and remits these funds to the trustee; however, there is no revenue and expense impact to the University. The facility is owned by CHF-DeLand, a separate 501(c)(3) entity, and financed through tax-exempt bonds issued by the Volusia County Industrial Development Authority and assumed by CHF-DeLand. The University does not pay nor is it responsible for the debt. Additionally, no building lease exists between the University and CHF-DeLand. When the financing is paid in full, the ownership interest in the facility will or may be conveyed to the University. The underlying property on which the facility is located is leased by the University to CHF-DeLand under a ground lease.

Ground lease revenue receivable by the University as of June 30, 2013 and 2012, amounted to approximately \$360,000 and \$270,000, respectively. Amounts due from CHF-DeLand for operating expense reimbursements were approximately \$10,000 and \$6,000 at June 30, 2013 and 2012, respectively. As of June 30, 2013, an amount due from CHF-DeLand for reimbursement of costs related to repair and replacement of the University Village Apartment HVAC system amounted to \$371,000.

**Note 13. Related-Party Transactions**

During the 2013 and 2012 fiscal years, the University paid \$1.9 million and \$2.9 million, respectively, for insurance brokerage services provided by a firm for which a Trustee of the University is also the chairman. Of the \$2.9 million paid during 2012, \$1.3 million is included in Prepaid Insurance as of June 30. There were no outstanding payments owed to this firm as of June 30, 2013 and 2012. During the 2013 fiscal year, the University paid \$21,000 for financial consulting services provided by a firm for which a Trustee is a Managing Director. Also during 2011, the University received certain promises to give from members of the Board of Trustees as discussed in Note 3.

**Note 14. Charles A. Dana Law Center Foundation, Inc.**

The University has recorded its interest in the net assets of the Charles A. Dana Law Center Foundation, Inc. (the Foundation) on the accompanying statements of financial position as investment in affiliated entity.

The change in net assets of the Foundation for the years ended June 30, 2013 and 2012, was \$294,000 and (\$20,000), respectively. The University's interest in the net assets for the Foundation as of June 30, 2013 and 2012, amounted to approximately \$3.5 million and \$3.2 million, respectively.

**Stetson University, Inc.**

**Notes to Financial Statements**

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**Note 15. Restricted Net Assets**

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>
	<b>(In Thousands)</b>	
<b>June 30, 2013</b>		
Scholarships	\$ 8,420	\$ 46,833
Programs	15,626	56,032
Capital	1,700	-
Trusts and Annuities	2,636	49
Loans	-	2,555
Pledges	8,401	12,558
	<u>\$ 36,783</u>	<u>\$ 118,027</u>
<b>June 30, 2012</b>		
Scholarships	\$ 12,319	\$ 42,899
Programs	8,635	53,464
Capital	999	-
Trusts and Annuities	2,486	(259)
Loans	-	2,555
Pledges	5,743	2,719
	<u>\$ 30,182</u>	<u>\$ 101,378</u>

**Note 16. Fair Value of Financial Instruments and Fair Value Disclosures**

The University has established and documented processes and methodologies for determining the fair values of portfolio company investments on a recurring basis in accordance with ASC 820, *Fair Value Measurements*. Under ASC 820, a financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy established by ASC 820 are defined as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The University recognizes any transfers of assets or liabilities between Levels 1, 2 and 3 as occurring on the actual date of the transfer. During fiscal years 2013 and 2012, there were no transfers into or out of Levels 1, 2, and 3.

**Notes to Financial Statements**

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**Note 16. Fair Value of Financial Instruments and Fair Value Disclosures (Continued)**

Classification within the fair value hierarchy for alternative investments that are measured at net asset value (NAV) per share (or its equivalent) requires judgment, considering the following:

If the University has the ability to redeem its investment with the investee at NAV per share (or its equivalent) at the balance sheet (measurement) date, the fair value measurement of the investment is categorized as a Level 2 fair value measurement.

If the University will never have the ability to redeem its investment with the investee at NAV per share (or its equivalent), the fair value measurement of the investment is categorized as a Level 3 fair value measurement.

If the University cannot redeem its investment with the investee at NAV per share (or its equivalent) at the measurement date but the investment may be redeemable with the investee at a future date, the University considers the length of time until the investment will become redeemable in determining whether the fair value measurement of the investment will be categorized as a Level 2 or Level 3 fair value measurement.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments in accordance with the provisions of ASC 820:

Cash and Cash Equivalents – The carrying amounts reported in the accompanying statements of financial position approximate their fair value, due to the short-term maturity of these instruments.

Loans Receivable – Determination of the fair value of loans receivable, which are primarily federally sponsored student loans with U.S. government-mandated interest rates and repayment terms and subject to significant restrictions as to their transfer or disposition, could not be made without incurring excessive costs.

Pledges Receivable – The fair values of pledges receivable are discounted at an approximate rate commensurate with the risks involved. The discounted pledges receivable value approximates the fair value of these instruments.

Charitable Gift Annuities – The obligation for annuities is based on an actuarial calculation that considers the life expectancy of the annuitant and the expected rate of return to be earned on the annuitant's gift. The rate of return assumed in this calculation for each of the annuities is 2.8%, which is representative of its fair value.

Debt – The fair value of the VCEFA 2005 bond obligations payable is estimated based on quoted market prices for the same or similar issues.

Estimated fair values of the University's financial instruments at June 30, 2013, are as follows:

Description	Carrying Amount 2013	Fair Value 2013	Carrying Amount 2012	Fair Value 2012
(In Thousands)				
<b>Financial assets (liabilities)</b>				
Cash and cash equivalents	\$ 16,284	\$ 16,284	\$ 25,449	\$ 25,449
Bonds payable	(52,774)	(53,322)	(54,983)	(55,950)

**Stetson University, Inc.**

**Notes to Financial Statements**

**Note 16. Fair Value of Financial Instruments and Fair Value Disclosures (Continued)**

The following table presents the fair values for assets and liabilities measured on a recurring basis as of June 30, 2013:

Description	Fair Value	Level 1: Quoted Prices in Active Markets for Identical Assets or Liabilities			Level 2: Significant Other Observable Inputs	Level 3: Significant Unobservable Inputs
		(In Thousands)				
Short-term investments						
Fixed income mutual funds:						
Multi-strategy	\$ 4,946	\$ 4,946	\$ -	\$ -		
Short-term investments total	4,946	4,946	-	-		
Funds held in trust by others	9,306	-	-	9,306		
Investments:						
Money market funds	1,014	1,014	-	-		
Equity securities:						
US large cap	26,308	26,308	-	-		
US mid/small cap	14,335	14,335	-	-		
International developed	2,477	2,477	-	-		
Unit Investment trusts	768	768	-	-		
Equity mutual funds:						
US large cap	32,547	32,547	-	-		
US mid/small cap	515	515	-	-		
International developed	15,538	15,538	-	-		
Emerging markets	149	149	-	-		
Multi-strategy	10	10	-	-		
Fixed income securities:						
U.S, Government	189	-	189	-		
Corporate	1,054	-	1,054	-		
Global fixed	256	-	256	-		
Fixed income mutual funds:						
U.S, Government	296	296	-	-		
Corporate	575	575	-	-		
Multi-strategy	42,525	42,525	-	-		
Global fixed	9,750	9,750	-	-		
Alternative investments:						
Multi-strategy	4,586	-	4,586	-		
Distressed	7,572	-	-	7,572		
Private equity	6,259	-	-	6,259		
Other investments	556	56	500	-		
Investments total	\$ 167,279	\$ 146,863	\$ 6,585	\$ 13,831		

**Stetson University, Inc.**

**Notes to Financial Statements**

**Note 16. Fair Value of Financial Instruments and Fair Value Disclosures (Continued)**

The following table presents the fair values for assets and liabilities measured on a recurring basis as of June 30, 2012:

Description	Fair Value	Level 1: Quoted Prices in Active Markets for Identical Assets or Liabilities			Level 2: Significant Other Observable Inputs	Level 3: Significant Unobservable Inputs
		(In Thousands)				
Short-term investments						
Fixed income mutual funds:						
Multi-strategy	\$ 7,863	\$ 7,863	\$ -	\$ -		
Short-term investments total	7,863	7,863	-	-		
Funds held in trust by others	8,892	-	-	-	8,892	
Investments:						
Money market funds	1,192	1,192	-	-		
Equity securities:						
US large cap	22,181	22,181	-	-		
US mid/small cap	11,520	11,520	-	-		
International developed	1,810	1,810	-	-		
Unit Investment trusts	803	803	-	-		
Equity mutual funds:						
US large cap	29,087	29,087	-	-		
US mid/small cap	318	318	-	-		
International developed	10,157	10,157	-	-		
Emerging markets	28	28	-	-		
Multi-strategy	2	2	-	-		
Fixed income securities:						
U.S. Government	-	-	-	-		
Corporate	742	-	742	-		
Global fixed	218	-	218	-		
Fixed income mutual funds:						
U.S. Government	1	1	-	-		
Corporate	10	10	-	-		
Multi-strategy	38,439	38,439	-	-		
Global fixed	9,010	9,010	-	-		
Alternative investments:						
Multi-strategy	4,802	-	4,802	-		
Distressed	5,751	-	-	5,751		
Private equity	-	-	-	-		
Other investments	542	42	500	-		
Investments total	\$ 136,613	\$ 124,600	\$ 6,262	\$ 5,751		

**Stetson University, Inc.**

**Notes to Financial Statements**

**Note 16. Fair Value of Financial Instruments and Fair Value Disclosures (Continued)**

The table below sets forth a summary of changes in the fair value of the University's Level 3 assets for the year ended June 30, 2013:

	<b>Funds Held in Trust by Others</b>	<b>Alternative: Distressed</b>	<b>Alternative: Private Equity</b>
	(In Thousands)		
Balance, at beginning of year	\$ 8,892	\$ 5,751	\$ -
Purchases	31	1,327	6,110
Issuances	-	(384)	(36)
Settlements	-	-	-
Actuarial and present value adjustments	383	-	-
Unrealized gains	-	878	185
Balance, at end of year	<u>\$ 9,306</u>	<u>\$ 7,572</u>	<u>\$ 6,259</u>

The table below sets forth a summary of changes in the fair value of the University's Level 3 assets for the year ended June 30, 2012:

	<b>Funds Held in Trust by Others</b>	<b>Alternative: Distressed</b>
	(In Thousands)	
Balance, at beginning of year	\$ 9,448	\$ -
Purchases	-	5,317
Issuances	-	-
Settlements	-	-
Actuarial and present value adjustments	(556)	-
Unrealized gains	-	434
Balance, at end of year	<u>\$ 8,892</u>	<u>\$ 5,751</u>

The University's beneficial interest in irrevocable split-interest agreements held or controlled by a third party are classified as Level 3 Funds Held in Trust by Others as the fair values are based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows). The fair values are estimated using the income approach and are measured at the present value of the future distributions the University expects to receive over the term of the agreements.

Included in Level 2 and Level 3 are alternative investments, which include holdings in a multi-strategy fund that invests in a range of trading styles, including long-term trend following, short-term systematic, value, discretionary macro and specialist FX strategies with full transparency and daily liquidity. Also included in alternative investments are holdings in a distressed senior credit asset fund and a private equity fund. After a lock-up of one full year, the senior credit asset fund has quarterly liquidity subject to a 60-day notice and 33% of net asset value. The private equity fund has quarterly liquidity subject to a 60-day notice and certain restrictions as established by the fund. The University has no unfunded commitments in alternative investments as of June 30.

**Notes to Financial Statements**

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**Note 17. Subsequent Events**

ASC 855, subsequent events, establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued. ASC 855 defines two types of subsequent events. The effects of events or transactions that provide additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing financial statements, are recognized in the financial statements. The effects of events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date are not recognized in the financial statements. Management of the University has reviewed subsequent events through September 30, 2013 (the date of the issuance of the accompanying financial statements).

## **Supplementary Information**

Stetson University, Inc.

**Supplementary Disaggregated Statement of Financial Position**  
**June 30, 2013**  
**(In Thousands)**

	Current Funds	Loan Funds	Endowment and Similar Funds	Plant Funds	Total
<b>Assets</b>					
Cash and cash equivalents	\$ 14,980	\$ -	\$ 168	\$ 1,136	\$ 16,284
Short-term investments	4,946	-	-	-	4,946
Notes and account receivable – net	3,971	5,278	256	-	9,505
Pledges receivable – net	8,396	-	12,558	-	20,954
Inventories	260	-	-	-	260
Investments	713	-	166,519	47	167,279
Funds held in trust by others	-	-	9,306	-	9,306
Property, plant, and equipment, net	-	-	-	136,488	136,488
Other assets	3,010	-	5	492	3,507
Investment in affiliated entity	-	-	3,470	-	3,470
<b>Total assets</b>	<b>\$ 36,276</b>	<b>\$ 5,278</b>	<b>\$ 192,282</b>	<b>\$ 138,163</b>	<b>\$ 371,999</b>
<b>Liabilities and net assets</b>					
Liabilities:					
Accounts payable	\$ 3,451	\$ -	\$ 209	\$ 1,242	\$ 4,902
Accrued liabilities	6,476	-	-	147	6,623
Student deposits and other current liabilities	3,779	-	-	-	3,779
Postretirement benefits	8,265	-	-	-	8,265
Refundable government loan funds	-	4,940	-	-	4,940
Annuities payable	-	-	2,722	-	2,722
Capital leases	-	-	-	144	144
Long-term debt	-	-	-	56,864	56,864
Due to (from) other funds	4,205	(2,989)	(2,931)	1,715	-
<b>Total liabilities</b>	<b>26,176</b>	<b>1,951</b>	<b>-</b>	<b>60,112</b>	<b>88,239</b>
Net assets:					
Unrestricted	(1,778)	772	53,605	76,351	128,950
Temporarily restricted	11,878	-	23,205	1,700	36,783
Permanently restricted	-	2,555	115,472	-	118,027
<b>Total net assets</b>	<b>10,100</b>	<b>3,327</b>	<b>192,282</b>	<b>78,051</b>	<b>283,760</b>
<b>Total liabilities and net assets</b>	<b>\$ 36,276</b>	<b>\$ 5,278</b>	<b>\$ 192,282</b>	<b>\$ 138,163</b>	<b>\$ 371,999</b>